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United Kingdom

The United Kingdom (UK) plays a leading role in European and world finance and remains attractive to money launderers because of the size, sophistication, and reputation of its financial markets. Although narcotics are still a major source of illegal proceeds for money laundering, the proceeds of other offenses, such as financial fraud and the smuggling of people and goods, have become increasingly important. The past few years have witnessed the movement of cash placement away from High Street banks and mainstream financial institutions. The use of bureaux de change, cash smugglers (into and out of the UK), and gatekeepers (including solicitors and accountants), the purchase of high-value assets as disguises for illegally obtained money, and credit/debit card fraud has been on the increase since 2002.

According to analysis by the UK's Serious Organized Crime Agency (SOCA), serious organized crimes in the UK generate about GBP 15bn per annum. Businesses that are particularly attractive to criminals are those with high cash turnovers and those involved in overseas trading. Illicit cash is consolidated in the UK, and then moved overseas where it can more readily enter the legitimate financial system, either directly or by means such as purchasing property. Cash can be smuggled in a number of ways: it can be transported by courier, freight or post and moved through the various points of exit from the UK. Cash smuggling techniques are adaptable, smugglers can easily change techniques if they suspect law enforcement is targeting a particular route or method.

Criminal proceeds are mostly generated in the large metropolitan areas in the UK. Cities such as London, Liverpool and Birmingham have large drugs markets and also serve as supply points for markets in smaller cities and towns, drawing in significant flows of illicit cash. They often hold funds in numerous bank accounts, spread across a range of financial institutions, in an effort to ensure that no one institution is aware of the full scale of their wealth

or the patterns of their transactions.

Many aspects of the laundering of drug proceeds remain unclear, but it is evident that traffickers are able to launder substantial amounts of money in the UK despite improved anti-money laundering measures introduced under the Proceeds of Crime Act (2002). Much of the money made in the UK benefits criminals who operate in the UK.

Because cash is the mainstay of the drugs trade, traffickers make extensive use of money transmission agents (MTA), cash smuggling, and Informal Value Transfer Systems ('underground banking') to remove cash from the UK. Heroin proceeds from the UK are often laundered through Dubai en route to traffickers in Pakistan and Turkey. Cocaine proceeds are repatriated to South America via Jamaica and Panama.

As money laundering laws become stricter, drug related laundering becomes more difficult. Because dealers in the UK generally collect sterling, most traffickers are left with excess small currency (usually GBP10 notes). This has created cash smuggling operations to move large sums of sterling out of the country. SOCA analysis suggests that more sterling has exited the UK in recent years than entered due to the relative ease of converting sterling in other countries.

The UK has implemented many of the provisions of the European Union's two Directives on the prevention of the use of the financial system for the purpose of money laundering, and the Financial Action Task Force (FATF) Forty Plus Nine Recommendations. Narcotics-

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related money laundering has been a criminal offense in the UK since 1986. The laundering of proceeds from other serious crimes has been criminalized by subsequent legislation. Banks and nonbank financial institutions in the UK must report suspicious transactions.

In 2001, money laundering regulations were extended to money service bureaus (e.g., bureaux de change, money transmission companies), and in September 2006, the Government published a review of the regulation and performance of money service businesses in preventing money laundering and terrorist financing. Since 2004, more business sectors are subject to formal suspicious activity reporting (SAR) requirements, including attorneys, solicitors, accountants, real estate agents, and dealers in high-value goods, such as cars and jewelry. Sectors of the betting and gaming industry that are not currently regulated are being encouraged to establish their own codes of practice, including a requirement to disclose suspicious transactions.

Following an extensive consultation period in late 2006, the Treasury published Money Laundering Regulations in July 2007. The regulations implement the Third EU Money Laundering Directive, agreed under the UK's EU Presidency in 2005. The provisions include: extended supervision so that all businesses in the regulated sector comply with money laundering requirements; strict tests of money services businesses; extra checks on customers identified by firms as posing a high risk of money laundering; a requirement to establish the source of wealth of customers who are high ranking public officials overseas; and a strengthened and risk-based regime in casinos, in line with international standards. The regulations took effect December 15, 2007.

The Proceeds of Crime Act 2002 (POCA), created a new

criminal offense of failing to disclose suspicious transactions in respect to all crimes, not just "serious," narcotics- or terrorism-related crimes, as was the case previously. This is applicable to all regulated sectors. Along with the Act came an expansion of investigative powers relative to large movements of cash in the UK. Sections 327 to 340 of the Act address possession, acquisition, transfer, removal, use, conversion, concealment or disguise of criminal or terrorist property, inclusive of but not limited to money. The POCA also criminalizes tipping off. The "Money Laundering Regulations 2003," along with amending orders for the POCA and the Terrorism Act, impose requirements on various entities, including attorneys, and introduce a client identification requirement, requirements on record keeping, internal reporting procedures and training.

The introduction of the Fraud Act 2006, which took effect on 15 January 2007, saw significant changes to offences in the fraud and forgery offence group. Changes were also made to the way in which the police record fraud offences.

The UK's banking sector provides accounts to residents and nonresidents, who can open accounts through various intermediaries that often advertise on the Internet and also offer various offshore services. Private banking constitutes a significant portion of the British banking industry. Both resident and nonresident accounts are subject to the same reporting and record keeping requirements. Individuals typically open nonresident accounts for tax advantages or for investment purposes.

Bank supervision falls under the Financial Services Authority (FSA). The FSA's primary responsibilities relate to the safety and soundness of the institutions under its jurisdiction. The FSA also plays an important role in the fight against money laundering through its continued involvement in the authorization of banks, and investigations of money laundering activities involving banks. The FSA regulates some 29,000 firms, which include European Economic Area (EEA) firms passporting into the UK (firms doing business on a cross-border basis), ranging from global

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investment banks to very small businesses, and around 165,000 individuals. The FSA also regulates mortgage and general insurance agencies, totaling over 30,000 institutions. The FSA administers a civil-fines regime and has prosecutorial powers. The FSA has the power to make regulatory rules with respect to money laundering, and to enforce those rules with a range of disciplinary measures (including fines) if the institutions fail to comply. In October 2006, the financial services sector adopted National Occupational Standards of Competence in the fields of compliance and in anti-money laundering.

The Serious Organized Crime and Police Act of 2005 (SOCAP) made changes to the money laundering provisions in the POCA. One of these changes was the creation of the SOCA, which became the UK's financial intelligence unit (FIU). In 2006, SOCA took over all FIU functions from the National Criminal Intelligence Service (NCIS). In light of that change SARs are now filed with SOCA. In the context of the SARs regime, SOCAP gives SOCA all the FIU powers and functions that were inherited from NCIS. SOCA has three functions: the prevention and detection of serious organized crime; the mitigation of the consequences of such crime; and the function of receiving, storing, analyzing and disseminating information. Under the law, SOCA's functions are not restricted to serious or

organized crime but potentially bear on all crimes, and those functions are to include assistance to others in the discharge of their enforcement responsibilities. In 2005, the NCIS received just under 200,000 SARs and had seen a steady increase each year since 2001. The new law also relaxed slightly reporting requirements to allow banks to proceed with low value transactions (not exceeding 250 pounds) involving suspected criminal property without requiring specific consent to operate the account. However, the reporting of every such transaction is still required, and other obligated entities were not granted these relaxed standards. Also under SOCAP, foreign acts would no longer be considered money laundering if not contrary to the law of the foreign jurisdiction.

The Proceeds of Crime Act 2002 has enhanced the efficiency of the forfeiture process and increased the recovered amount of illegally obtained assets. The Act consolidates existing laws on forfeiture and money laundering into a single piece of legislation, and, perhaps most importantly, creates a civil asset forfeiture system for the proceeds of unlawful conduct. It also creates the Assets Recovery Agency (ARA), to enhance financial investigators' power to request information from any bank about whether it holds an account for a particular person. The Act provides for confiscation orders and for restraint orders to prohibit dealing with property. It also allows for the recovery of property that is, or represents, property obtained through unlawful conduct, or that is intended to be used in unlawful conduct. Furthermore, the Act shifts the burden of proof to the holder of the assets to prove that the assets were acquired through lawful means. In the absence of such proof, assets may be forfeited, even without a criminal conviction. The Act gives standing to overseas requests and orders concerning property believed to be the proceeds of criminal conduct. The Act also provides the ARA with a national standard for training investigators, and gives greater powers of seizure at a lower standard of proof. In light of this, Her Majesty's Revenue and Customs (HMRC) has increased its national priorities to include investigating the movement of cash through money exchange houses and identifying unlicensed money remitters. The total value of assets recovered by all agencies under the Act (and earlier legislation) in England, Wales, and Northern Ireland was approximately \$96.6 million in 2004 and approximately \$149.6 million in 2005. The Assets Recovery Unit had announced additional seizures worth approximately \$30 million in 2006 with an additional \$200 million under restraint pending the outcome of court cases.

In one illustrative case, on 25 September 2007 the last of eight men was sentenced at Croydon Crown Court

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as a result of Operation Labici. The main defendant received ten years imprisonment and the total for all eight defendants was 39 years for money laundering. Operation Labici was an investigation into an organized group of money launderers operating in the UK but controlled from Dubai and Pakistan. They used a hawala banking network to move drugs money between the UK and Pakistan/Dubai as well as other countries. Hawala banking is a paperless method of moving money from one place to another and relies on a system of trust between the bankers, known as hawaladars. The money is not moved either physically or electronically. Legitimate use of such a system can be an inexpensive way of moving money.

The UK end of the organization provided laundering

services to UK drug dealers. Records seized showed that almost GBP15 million in cash had been passed. A significant part of the evidence was from mass spectrometry which allows detectors to sample chemical residues on paper. One million pounds in seized cash had a high level of heroin contamination.

The Terrorism (United Nations Measures) Order 2001 makes it an offense for any individual to make any funds for financial or related services available, directly or indirectly, to or for the benefit of a person who commits, attempts to commit, facilitates, or participates in the commission of acts of terrorism. The Order also makes it an offense for a bank or building society to fail to disclose to the Treasury a suspicion that a customer or entity with whom the institution has had dealings since October 10, 2001, is attempting to participate in acts of terrorism. The Anti-Terrorism, Crime, and Security Act 2001 provides for the freezing of assets. In March 2006, the Terrorism Act received Royal Assent. This Act aims to impede the encouragement of others to commit terrorist acts, and amends existing legislation. Changes include: the introduction of warrants to enable police to search any property owned or controlled by a terrorist suspect, the extension of terrorism stop and search powers to cover bays and estuaries, with improved search powers at ports, the extension of police powers to detain suspects after arrest for 28 days (although intervals exceeding two days must be approved by a judicial authority), and the increased flexibility of the proscription regime, including the power to proscribe groups that glorify terrorism.

As a direct result of the events of September 11, 2001, the FID established a separate National Terrorist Financing Investigative Unit (NTFIU), to maximize the effect of reports from the regulated sector. The NTFIU chairs a law enforcement group to provide outreach to the financial industry concerning requirements and typologies. The NTFIU is now under the remit of SOCA. The operational unit that responds to the work and intelligence development of the NTFIU has seen a threefold increase in staffing levels directly due to the increase in the workload. The Metropolitan Police responded to the growing emphasis on terrorist financing by expanding the focus and strength of its specialist financial unit dedicated to this area of investigations.

Charitable organizations and foundations are subject to supervision by the UK Charities Commission. Such entities must be licensed and are subject to reporting and record keeping requirements. The Commission has investigative and administrative sanctioning authority, up to and including the authority to remove management, appoint trustees and place organizations into receivership. The Government intends to revise its reporting requirements in 2007 to develop a risk-based approach to monitoring with a new serious incident reporting function for charities.

The UK cooperates with foreign law enforcement agencies investigating narcotics-related financial crimes. The UK is a party to the 1988 UN Drug Convention and the UN International Convention for the Suppression of the Financing of Terrorism. In February 2006, the UK ratified both the UN Convention against Transnational Organized Crime and the UN Convention

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against Corruption. The UK is a member of the FATF. SOCA is an active member of the Egmont Group and has information sharing arrangements in place with the FIUs of the United States, Belgium, France, and

Australia. The Mutual Legal Assistance Treaty (MLAT) between the UK and the United States has been in force since 1996 (the United States and UK signed a reciprocal asset sharing agreement in March 2003). The UK also has an MLAT with the Bahamas. Additionally, there is a memorandum of understanding in force between the U.S. Immigration and Customs Enforcement and HM Revenue and Customs.

The United Kingdom should develop legislation and implementing regulations to ensure that the gaming and betting industries are completely covered in the same manner as the financial and designated non-financial businesses and professions. This should include a legal requirement to disclose suspicious transactions rather than relying on the industries' own codes of practice. In addition, authorities should track and examine the effects of the SOCAP change regarding acts and assets in or from foreign jurisdictions, and revisit this legislation to determine whether it has been effective, or whether it has enabled exploitation.

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